

**The Innocent Spouse Centralized Review
Function Ensured Accurate Relief
Determinations, but Improvements
Could Increase Customer Service**

May 2005

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

May 2, 2005

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Innocent Spouse Centralized
Review Function Ensured Accurate Relief Determinations,
but Improvements Could Increase Customer Service
(Audit # 200440020)

This report presents the results of our review of the Innocent Spouse Centralized Review function. The overall objective of this review was to determine whether the Innocent Spouse Centralized Review function effectively monitors, measures, and improves the quality of work in relief determinations.¹

In summary, married taxpayers who file a joint tax return are jointly and individually responsible for the tax and any interest and penalties due on their joint return. This liability continues on the jointly filed returns even if the taxpayers later divorce. One spouse can be held responsible for all the tax, interest, and penalties due even if the other spouse earned all the income. Relief determinations focus on protecting the spouse who signed a joint tax return without the knowledge of specific items on that return and became personally liable for the errors of the other spouse. This protection also covers the spouse who reported the proper amount of income on a joint return and was led to believe by the other spouse that the taxes were being paid.

The Innocent Spouse Centralized Review function assesses and measures the quality of the examiner determinations made on taxpayer relief claims using quality attributes² that encompass the general standards of accuracy, professionalism, and timeliness. This process is designed to ensure taxpayers that apply for relief receive accurate, fair,

¹ Our review focused on the adequacy of the determination process for those cases that met the basic relief eligibility qualifications. It did not include an assessment of the accuracy of the "first-read" screening process or the case closing process.

² An attribute represents a task an employee is required to perform to do his or her job correctly.

and consistent determinations. We found examiners made accurate determinations in 100 percent of the 128 closed quality-reviewed cases we sampled.

During Fiscal Year (FY) 2004,³ 6,555 taxpayers were granted full or partial relief from approximately \$117.6 million in tax assessments. The examiners and managers, in concert with the quality reviewers, ensured these determinations were fair, equitable, and accurate. In addition, examiners generally provided taxpayers with timely preliminary and final determination letters, avoiding unnecessary delays and efficiently processing additional taxpayer information.

However, Innocent Spouse Program management did not effectively use quality review data to improve customer service and reduce taxpayer burden. The Innocent Spouse Centralized Review function found examiners did not always address all the issues raised by taxpayers, address other open Internal Revenue Service (IRS) issues, or send taxpayers the required interim contact letters. The quality review results reports indicate consistently high error rates for these three quality attributes for almost all of FY 2004.⁴ If examiners do not properly address all taxpayer or IRS issues while cases are open or do not send out all interim contact letters, these missed opportunities could result in unnecessary subsequent contacts or problems for the taxpayers. We estimate potentially 380 taxpayers may not have had all the issues they raised addressed, 142 taxpayers may not have other open IRS issues addressed, and 2,377 taxpayers may not have received all of the required interim contact letters.⁵

In addition, the Innocent Spouse Centralized Review function had not always identified and reported when examiners did not meet the quality attributes required for the standards of professionalism. Quality reviewers did not always identify and report all the instances we identified in our sample in which examiners had not used the correct format, grammar, spelling, punctuation, or letter type in correspondence with taxpayers. In fact, the Innocent Spouse Centralized Review function results from the period under review indicated a 92 percent professionalism rate, while we found a 66 percent professionalism rate on these same issues in our sample. This led to an overstatement of the professionalism rate and the lost opportunity to correct and improve the quality of correspondence with taxpayers.

We recommended the Commissioner, Wage and Investment (W&I) Division, require the Innocent Spouse Operations Manager to periodically assess the effectiveness of corrective actions taken to address quality standards that warrant improvement. We also recommended the Commissioner, W&I Division, clarify quality reviewer guidelines on the issue of professionalism and assess the effectiveness of the current monthly

³ According to Innocent Spouse Program management, tracking of the FY 2004 Innocent Spouse Program results began on September 28, 2003, and ended on September 25, 2004.

⁴ Due to changes in how the IRS measures case quality and implementation of a new quality review database in FY 2004, the IRS was able to provide us comparable weekly quality review data covering only the period November 1, 2003, through September 18, 2004.

⁵ These estimates are based on applying our sample error rates to the 6,085 closed taxpayer cases processed by the Cincinnati Centralized Innocent Spouse Operation during the period of November 1, 2003, through April 10, 2004.

case review process for ensuring quality reviewer work is consistently and accurately recorded and make enhancements, as warranted.

Management's Response: Management agreed with all three recommendations and has initiated corrective actions. Specifically:

- Management will perform a weekly analysis of the Quality Review Defect Report to identify error trends and training needs. Review findings will be tracked and shared with the frontline managers to discuss in their weekly employee meetings.
- Review guidelines were revised to advise reviewers to charge an error if the name, address, tax years, Social Security Number, format, grammar, spelling, punctuation, or letter type were incorrect, regardless of whether taxpayers may understand the overall intent of the letter. The Innocent Spouse Operations Manager now performs a sample review of letters, prior to mailing, to ensure the letters are clear and professional.
- Management will conduct a semiannual assessment of previously reviewed cases to ensure the Quality Reviewers are being consistent and accurately applying the quality attributes.

Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

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The Innocent Spouse Centralized Review Function Ensured Accurate Relief Determinations, but Improvements Could Increase Customer Service

Background

Married taxpayers who file a joint tax return are jointly and individually responsible for the tax and any interest and penalties due on their joint return. This liability continues on the jointly filed returns even if the taxpayers later divorce. One spouse can be held responsible for all the tax, interest, and penalties due even if the other spouse earned all the income.

According to the Internal Revenue Service (IRS) publication, *Innocent Spouse Relief (and Separation of Liability and Equitable Relief)* (Publication 971), a taxpayer can be relieved of responsibility for paying tax, interest, and penalties if his or her spouse (or former spouse) improperly understated¹ or underpaid² the tax. The IRS Restructuring and Reform Act of 1998³ liberalized the existing provisions in the law and made it easier for taxpayers to file a claim and qualify for relief. However, the taxpayer is still jointly and individually responsible for any tax, interest, and penalties that do not qualify for relief.

In general, taxpayers filing a joint return may request relief from paying tax, interest, and penalties under three different categories. These are innocent spouse relief, relief by separation of liability, and equitable relief. Only equitable relief may be considered for relief for an underpayment, while all three categories may be considered for relief from an understatement. If spouses file separate returns in a community property state, then a spouse may request relief from liability arising from community property law.

Each type of relief has several factors the IRS needs to evaluate in order to determine whether to grant or deny the taxpayer relief. For example, to qualify for innocent spouse relief, a taxpayer must establish the following:

¹ An understatement of tax is generally the difference between the total amount of tax that should have been shown on the tax return and the amount of tax that was actually shown on the tax return.

² An underpayment of tax is an amount of tax the taxpayer properly reported on the tax return but did not pay.

³ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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- A joint tax return was filed with an understatement of tax due to erroneous items of his or her spouse (or former spouse).
- At the time the taxpayer signed the joint tax return, he or she did not know, and had no reason to know, there was an understatement of tax.
- The taxpayer must request relief within 2 years from the date of the first collection activity involving the taxpayer after July 22, 1998.
- Taking into account all the facts and circumstances, it would be unfair to hold the taxpayer liable for the understatement of tax.

A taxpayer can also qualify for relief if he or she reported the proper amount of income on a joint tax return and was led to believe by the other spouse that the taxes were being paid. Married taxpayers who did not file a joint tax return and live in community property states may also qualify for relief. For a more detailed description of the various types of relief available to taxpayers, see Appendix V.

Claims for relief received by the IRS are initially screened to determine if the basic qualifications needed to file a claim have been met by the taxpayer. If the claim does not meet the basic qualifications, the claim is rejected at this “first-read” screening and the taxpayer is notified. Only cases that meet the basic qualifications are subjected to further evaluation by an examiner to determine whether the taxpayer qualifies for relief.

In the Wage and Investment (W&I) Division, the Director, Reporting Compliance, and the Chief, Headquarters Discretionary Examination, set policy and procedures for the Innocent Spouse Program.⁴ The Field Director, Compliance Services, at the Andover Campus,⁵ in concert

⁴ The Innocent Spouse Program is responsible for determining if taxpayers qualify for innocent spouse relief, as well as determining if taxpayers qualify for relief by separation of liability, equitable relief, or relief from liability arising from community property law.

⁵ The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

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with the Innocent Spouse Operations Manager, provide oversight for the Cincinnati Centralized Innocent Spouse Operation (CCISO).

The Innocent Spouse Centralized Review function is designed to provide an unbiased, consistent, and accurate review of closed taxpayer relief request cases. Throughout the year, the Centralized Review function selects statistical samples from closed cases that did not meet the basic relief eligibility qualifications (i.e., rejected on first-read screening) and closed cases that were evaluated by examiners.

During Fiscal Year (FY) 2004, the Innocent Spouse Centralized Review function selected and reviewed a statistical sample of 380 closed relief request cases out of the claims submitted by 16,994 taxpayers that had been evaluated by examiners. In addition, the Centralized Review function selected and reviewed a statistical sample of 770 closed cases out of the claims submitted by 12,223 taxpayers that did not meet the basic relief eligibility qualifications and were rejected on first-read screening.

Quality reviewers evaluate the sample cases for specific quality attributes⁶ that encompass overall standards involving accuracy, professionalism, and timeliness. There are 45 quality attributes used to measure items that directly affect the taxpayer, such as addressing all of the taxpayer's issues. An additional 21 quality attributes measure items essential to the proper functioning of internal systems and processes, such as meeting all the Internal Revenue Manual (IRM)⁷ time periods. For the specific quality attributes we analyzed during this review, see Appendix VI.

⁶ An attribute represents a task an employee is required to perform to do his or her job correctly.

⁷ The IRM contains policy, direction, and delegations of authority that are necessary to carry out IRS responsibilities to administer tax law and other legal provisions.

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Innocent Spouse Program management has established a process to ensure quality reviewers accurately and consistently apply and record the quality attributes. The Innocent Spouse Quality Review Manager reviews every case identified with an error before it is sent back to the originating examiner and his or her group manager for correction. In addition, this Manager reviews two additional cases from each quality reviewer monthly to ensure errors are not being overlooked.

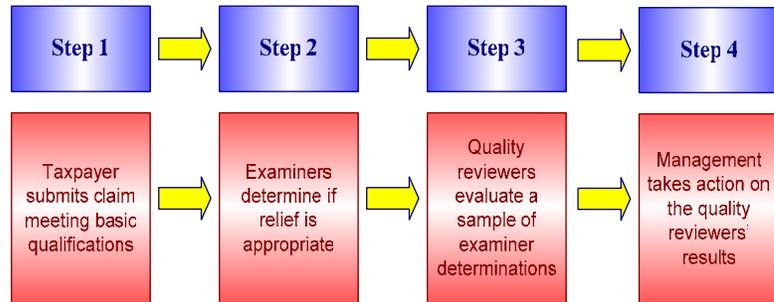
The Innocent Spouse Centralized Review function's quality review results are captured on the Quality Review Database (QRDb), which is used to collect a synopsis of the examiners' actions and compare those actions to IRS guidelines and procedures. The QRDb produces quality review results reports designed to identify trends that may indicate problem areas, training needs, and opportunities for process improvements.

Weekly reports are provided to Innocent Spouse Program management. These reports show the percentage of cases with accurate determinations and list the five quality attributes with the highest number of errors. Monthly cumulative reports showing the overall accuracy, professionalism, and timeliness rates are also provided to Innocent Spouse Program management.

According to the *IRS Embedded Quality Training Guide*, each manager, at every level, is responsible for reviewing quality data for his or her span of control to initiate data-driven organizational and individual improvements. When error trends are identified, this information is shared with all levels of the Innocent Spouse Program to effectively address the problem. Additionally, managers share the quality review results of individual case reviews with the examiner. The *Guide* stresses these data provide the manager the ability to assemble information as a basis to improve examiner performance. Honest and accurate reviews will help the examiner identify areas where improvement is needed.

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Figure 1: Innocent Spouse Quality Review Process for Claims Meeting the Basic Qualifications



Source: *Innocent Spouse Program management.*

This review was performed at the CCISO in Florence, Kentucky, during the period June through December 2004. Our review focused on the adequacy of the determination process for those claims that met the basic relief eligibility qualifications and the quality review process for those claims.⁸ The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Taxpayers Received Accurate and Timely Relief Determinations

The Innocent Spouse Centralized Review function effectively monitored and measured casework quality and timeliness, ensuring examiners provided accurate and timely relief determinations for taxpayers that applied for relief.

Taxpayers received accurate relief determinations

Taxpayers that applied for relief received accurate determinations in 100 percent of the sample of 128 closed cases we reviewed; these cases had been quality reviewed by the Innocent Spouse Centralized Review function between November 1, 2003, and April 10, 2004. The process used by the Innocent Spouse Centralized Review function ensured examiners made fair and consistent relief determinations. For example:

- Examiners properly resolved the taxpayer's case or issue in 120 (94 percent) of 128 cases. The quality

⁸ Our review did not include an assessment of the accuracy of the first-read screening process or the case closing process or an assessment of the quality review of those processes.

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reviewers' analyses concurred with our results except in one isolated instance. In addition, none of the errors identified resulted in an inaccurate relief determination.

- Examiners properly interpreted and applied the tax law to resolve the taxpayer's inquiry in 123 (98 percent) of 125 cases.⁹ The quality reviewers had come to the same conclusions during their reviews.
- Examiners properly prepared workpapers to support their conclusions in 85 (92 percent) of 92 cases.¹⁰ The quality reviewers had come to the same conclusions during their reviews.

Over the past few years, the Director, Reporting Compliance, W&I Division, and the Chief, Headquarters Discretionary Examination, W&I Division, have implemented a number of policies, procedures, and initiatives to enhance the quality of the relief determination process. For example:

- The determination and quality review processes were centralized to the CCISO. This helped to ensure cases were consistently worked and allowed examiners to gain program specific expertise.
- Examiners have begun using Integrated Case Processing (ICP), which has helped them make more accurate and consistent determinations. The ICP contains a checklist of questions and criteria guiding the examiner and prompting him or her to consider pertinent aspects of a taxpayer's case and to document decisions. The ICP is designed to lead the examiner to an appropriate determination with fewer errors.

⁹ In 3 of the 128 cases sampled, taxpayers did not respond to the IRS' requests for additional information so the correct tax law could be applied to make the proper determinations on the claims. As a result, this quality attribute applied to only 125 cases in our sample.

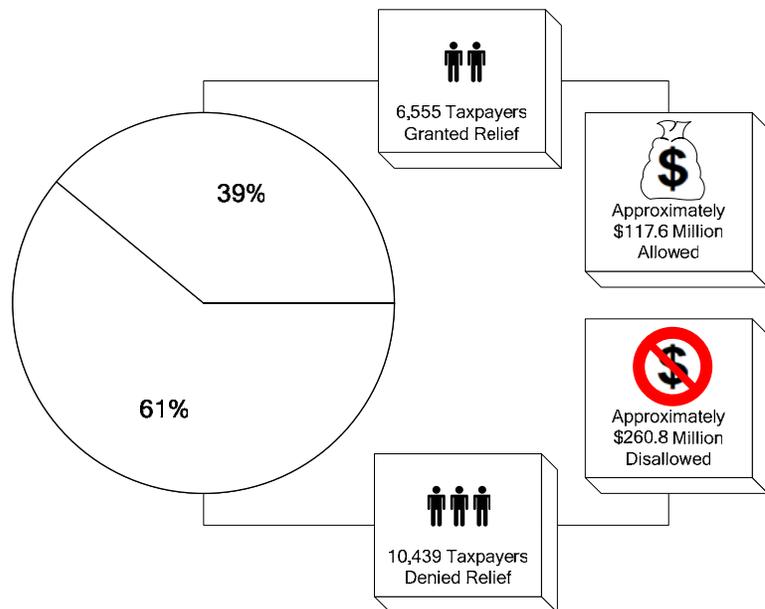
¹⁰ In 36 of the 128 cases sampled, workpapers were not required to support the examiners' conclusions because the claims were denied for not meeting basic relief eligibility qualifications. As a result, this quality attribute applied to only 92 cases in our sample.

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- Quality reviewers have begun using Smart Data Collection Instruments (DCI)¹¹ to record the results of their reviews. The DCIs contain a checklist of attributes to determine if work was conducted in compliance with guidelines.
- Experienced examiners from the Innocent Spouse Program are periodically rotated into the Centralized Review function to serve as two of the three quality reviewers. This rotation is planned to occur on a staggered 18-month cycle.

Figure 2 compares the percentage of taxpayers that were granted or denied relief in FY 2004, as well as the dollar amounts for each category.

Figure 2: Percentage of Taxpayers Granted Relief or Denied Relief in FY 2004 That Met Basic Relief Eligibility Qualifications¹²



Source: *Innocent Spouse Program Analyst.*

The Innocent Spouse Centralized Review function helped ensure taxpayers appropriately received relief of

¹¹ The Smart DCI is an electronic data capture document that contains descriptions of the common required tasks for a specific type of work or function.

¹² Figure 2 reflects only those taxpayers that met the basic relief eligibility qualifications; the 12,223 taxpayers that did not meet the basic relief eligibility qualifications during FY 2004 are not reflected.

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responsibility for paying taxes, interest, and penalties when their spouses improperly reported or omitted tax return items. During FY 2004,¹³ 6,555 taxpayers were granted full or partial relief from approximately \$117.6 million in tax assessments. The examiners and managers, in concert with the quality reviewers, ensured these determinations were fair, equitable, and accurate.

Taxpayers received timely relief determinations

Examiners provided taxpayers with an efficient response and a prompt resolution to their issues in 114 (89 percent) of 128 cases we reviewed. Examiners generally met the established IRM criteria by timely providing taxpayers with preliminary and final determination letters. Examiners also avoided any unnecessary delays and processed additional taxpayer information timely. By ensuring taxpayer issues were timely resolved, examiners were able to provide quality customer service and limit taxpayer burden.

Although the examiners met IRM time periods and timely processed 89 percent of the cases we reviewed, the Innocent Spouse Centralized Review function did not always identify when examiners did not meet this quality attribute. Quality reviewers had identified only 3 of the 14 instances we identified in our sample where examiners had not processed cases according to IRM time periods or had unnecessary delays. We identified an additional seven cases that were not processed according to IRM time periods and four cases that had unnecessary delays.

We could not determine why quality reviewers did not always identify instances when examiners did not meet this timeliness quality attribute. However, because errors were not properly charged, the overall timeliness rate was overstated and Innocent Spouse Program management did not have the opportunity to correct and improve the quality of their program's timeliness. We estimate potentially

¹³ According to Innocent Spouse Program management, tracking of the FY 2004 Innocent Spouse Program results began September 28, 2003, and ended September 25, 2004.

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Management Could Enhance the Use of Quality Review Data to Improve Customer Service and Reduce Taxpayer Burden

666 taxpayer cases were not processed timely or had unnecessary delays.¹⁴

Examiners did not always follow all of the quality attribute standards when assessing a taxpayer's claim for relief. Examiners did not always address all of the issues raised by taxpayers, did not always address other open IRS issues involved in the case, and did not always send the required interim contact letters. Each of these three attributes was not relevant to all of the cases we sampled.

- In 8 (53 percent) of 15 applicable cases,¹⁵ examiners did not address all the additional issues raised by the taxpayer.
- In 3 (75 percent) of 4 applicable cases,¹⁶ examiners did not address all open IRS issues when considering the case.
- In 50 (52 percent) of 97 applicable cases,¹⁷ examiners did not send all of the interim contact letters as required by the IRM.

The weekly quality review results reports indicate consistently high error rates for these three quality attributes for almost a year. Figure 3 shows the error percentages from the Centralized Review function's sample results for these three attributes for our sample time period and for most of FY 2004.

¹⁴ This estimate is based on applying our sample error rate to the 6,085 closed taxpayer cases processed by the CCISO during the period of November 1, 2003, through April 10, 2004.

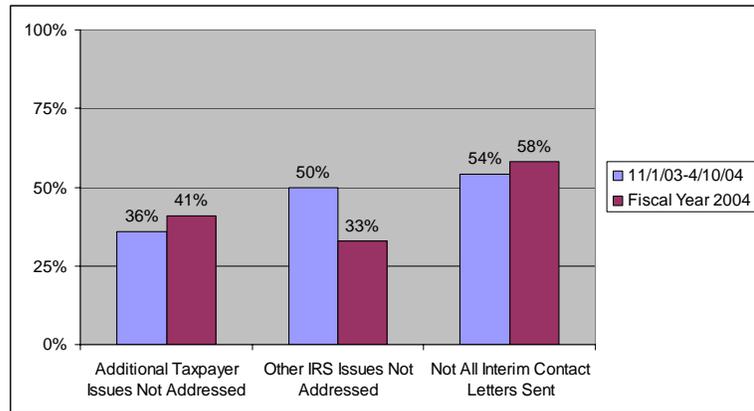
¹⁵ Out of the 128 cases in our sample, only 15 taxpayers raised other issues unrelated to their relief claims that would require examiners to take additional actions to resolve. For the remaining 113 cases in our sample, this quality attribute did not apply.

¹⁶ Only 4 of the 128 cases sampled had other open IRS issues unrelated to the relief claims that would require examiners to take additional actions to resolve. For the remaining 124 cases in our sample, this quality attribute did not apply.

¹⁷ For 97 of the 128 cases sampled, the IRM required the examiners to issue taxpayers various interim contact letters. For the remaining 31 cases in our sample, this quality attribute did not apply.

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Figure 3: Percentage of Cases in Which Examiners Did Not Address Additional Taxpayer Issues, Address Other IRS Issues, or Send All Interim Contact Letters



Source: *Innocent Spouse Centralized Review function weekly quality review results reports for the period November 1, 2003, through September 18, 2004.*¹⁸

Although the Innocent Spouse Operations Manager informed us Innocent Spouse Program managers had taken action on the Centralized Review function results, there were no substantial improvements for these three quality attributes during FY 2004. To ensure steps taken to correct identified problems are effective, we believe managers in the Innocent Spouse Program should be required to periodically assess the effectiveness of their corrective actions.

If examiners do not properly address all necessary taxpayer or IRS issues while cases are open or do not send out all interim contact letters, these missed opportunities could result in unnecessary subsequent contacts or problems for the taxpayers. We estimate potentially 380 taxpayers may not have had all the issues they raised addressed, 142 taxpayers may not have had other open IRS issues

¹⁸ Due to changes in how case quality is measured and implementation of a new quality review database in FY 2004, the IRS was able to provide us comparable weekly quality review data covering only the period November 1, 2003, through September 18, 2004.

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addressed, and 2,377 taxpayers may not have received all of the required interim contact letters.¹⁹

Recommendation

The Commissioner, W&I Division, should:

1. Require the Innocent Spouse Operations Manager to periodically assess the effectiveness of corrective actions taken to address quality standards that warrant improvement.

Management's Response: Management will perform a weekly analysis of the Quality Review Defect Report to identify error trends and training needs. Review findings will be tracked and shared with the frontline managers to discuss in their weekly employee meetings.

The quality reviewers in the Innocent Spouse Centralized Review function did not always identify and report when examiners had not met the quality attributes required for the standards of professionalism of correspondence.

Professionalism Errors Were Not Always Identified and Reported by Quality Reviewers

Quality reviewers did not identify all instances in which examiners did not use clear and appropriate language in correspondence

Examiners provided quality customer service by using clear and appropriate language in correspondence to taxpayers in 119 (93 percent) of 128 cases we reviewed. However, the Innocent Spouse Centralized Review function had not always identified and reported when examiners did not meet this quality attribute. Quality reviewers had identified only one of the nine instances we identified in which examiners had not used clear or appropriate language in correspondence to taxpayers. For example, examiners used the term "tax tolerance" in a letter to taxpayers without defining what it meant.

During the period under review, quality review results indicated examiners had used clear and appropriate language in correspondence to taxpayers in 98 percent of the

¹⁹ These estimates are based on applying our sample error rates to the 6,085 closed taxpayer cases processed by the CCISO during the period of November 1, 2003, through April 10, 2004.

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cases, while our sample results indicated a 93 percent accuracy rate.

Innocent Spouse Program management informed us quality reviewers used criteria different from ours when determining whether to charge an error for unclear or inappropriate language. They believed quality reviewers would charge an error only if the unclear or inappropriate language prevented the taxpayer from understanding the letter or changed the meaning of the letter.

This difference in criteria would cause quality reviewers to not identify and report all errors, which would overstate the overall professionalism rate and deny Innocent Spouse Program management the opportunity to improve the quality of taxpayer correspondence. We estimate potentially 428 taxpayers may have received written communications that did not contain clear or appropriate language.²⁰

Quality reviewers did not identify all instances in which examiners did not use correct format, grammar, spelling, punctuation, or letter type in correspondence

Examiners had not used the correct format, grammar, spelling, punctuation, or letter type in correspondence with taxpayers in 43 (34 percent) of the 128 cases we reviewed. Quality reviewers properly identified and reported 7 of these 43 cases. However, quality reviewers did not always identify and report errors such as incorrect format, poor grammar, misspelled words, or incorrect punctuation in all correspondence sent to taxpayers.

Innocent Spouse Program management informed us instructions were provided to quality reviewers that, in our opinion, may have affected the accurate reporting of errors. In January 2004, for example, quality reviewers were instructed to not record errors for incorrect format, grammar, spelling, punctuation, or letter type unless the errors affected the taxpayer's understanding or changed the meaning of the letter. Instead, the quality reviewers were to

²⁰ This estimate is based on applying our sample error rate to the 6,085 closed taxpayer cases processed by the CCISO during the period of November 1, 2003, through April 10, 2004.

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make an informal notation of these errors on the DCI checklists used to assess the cases. This information was then to be provided back to the first-line manager. Examiners had made these types of errors in 36 of the cases we reviewed, but quality reviewers had not identified and notated 27 of them.

Although the *IRS Embedded Quality Training Guide* and DCI guidelines required quality reviewers to record these instances as errors, Innocent Spouse Program management informed us they had instructed their reviewers not to code these errors. Management stated they wanted to be consistent with how they believed the Examination and Collection functions rated this attribute.

Innocent Spouse Program management also informed us quality reviewers used criteria different from ours when determining if the letter format was appropriate. For example, quality reviewers did not consider examiners referring to taxpayers by their first name as inappropriate. However, the IRM specifically prohibits employees from this practice. In November 2004, Innocent Spouse Program management initiated actions to enhance the professionalism of correspondence by sending an alert instructing examiners to not refer to taxpayers by their first name. Examiners had made these types of errors in eight of the cases we reviewed, but quality reviewers had not identified and reported any of them.

We believe these incorrect instructions have resulted in an overstatement of the professionalism rate in the relief request cases processed. During the period under review, the quality review results reports indicated that, in 92 percent of the cases, examiners used the correct format, grammar, spelling, punctuation, and letter type in correspondence with taxpayers, compared to our sample results indicating a 66 percent accuracy rate on these same issues.

According to the *IRS Embedded Quality Training Guide*, quality reviews that are incomplete or inadequate leave employees without a clear understanding of how well they are doing and can lead to a distortion in measuring the program quality. In addition, recognizing and recording errors according to the attribute definition is important for

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the IRS in achieving its quality goals, as well as avoiding outside agency scrutiny.

To ensure the accuracy of the quality reviewers' work, the Innocent Spouse Quality Review Manager had evaluated two cases from each quality reviewer per month. However, these evaluations were not an effective control to ensure reviewers were adequately charging errors because Innocent Spouse Program management had established a deviation to the quality standards for professionalism of the correspondence sent to taxpayers.

When errors are not properly charged, error trends may go unchecked and Innocent Spouse Program management will not have the opportunity to improve the quality of correspondence with taxpayers. We estimate potentially 2,044 taxpayers may have received written communications that did not have the correct format, grammar, spelling, punctuation, or letter type.²¹ Unprofessional correspondence may give taxpayers a negative impression of the skills and abilities of the examiners that reviewed their claims.

Recommendations

The Commissioner, W&I Division, should:

2. Revise quality reviewer guidelines to clarify the policy that quality reviewers should always charge an error when employees use unclear or inappropriate language in taxpayer correspondence, regardless of whether taxpayers may still understand the the overall intent of the letter.

Management's Response: Review guidelines were revised to advise reviewers to charge an error if the name, address, tax years, Social Security Number, format, grammar, spelling, punctuation, or letter type were incorrect, regardless of whether taxpayers may understand the overall intent of the letter. The Innocent Spouse Operations Manager now performs a sample review of letters, prior to mailing, to ensure the letters are clear and professional.

²¹ This estimate is based on applying our sample error rate to the 6,085 closed taxpayer cases processed by the CCISO during the period of November 1, 2003, through April 10, 2004.

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3. Assess the effectiveness of the current monthly case review process in ensuring quality reviewers' work is being consistently and accurately recorded, make enhancements as warranted, and establish a follow-up review process to confirm the effectiveness of any enhancements made to ensure quality reviewers are recording all errors.

Management's Response: Management will conduct a semiannual assessment of previously reviewed cases to ensure the Quality Reviewers are being consistent and accurately applying the quality attributes.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of the review was to determine whether the Innocent Spouse Centralized Review function effectively monitors, measures, and improves the quality of work in relief determinations.¹ Specifically, we focused on the accuracy and timeliness of relief determinations and the quality of correspondence sent to taxpayers. To accomplish this objective, we:

- I. Evaluated whether the Innocent Spouse Centralized Review function effectively monitors and measures the accuracy of claim determinations to ensure compliance with Internal Revenue Code Sections (I.R.C. §) 6015(b), (c), and (f) (2000); I.R.C. § 66(c) (2000); and I.R.C. § 6013 (2002) requirements.
 - A. Interviewed Innocent Spouse Program management and obtained documentation to determine the Internal Revenue Service (IRS) processes used to identify, sample/select, and quality review relief request cases.
 - B. Selected a statistical sample of 128 cases from the population of 216 closed cases the Innocent Spouse Centralized Review function had quality reviewed during the period November 1, 2003, through April 10, 2004.² Our sample size was determined based on a 95 percent confidence level, an expected error rate of 8 percent, and a precision of ± 3 percent. A statistical sample was taken because we wanted to estimate the number of taxpayers that may have received incorrect determinations.
 - C. Reviewed our sample of closed quality-reviewed cases to determine the accuracy of the quality reviewer's evaluation of the examiner's compliance with the appropriate tax laws and internal procedures when making a determination on a relief claim.
 - D. Compared the results of our review with the information in the Quality Review Database (QRDb)³ for our specific cases and for the overall quality-reviewed population to determine whether the Innocent Spouse Centralized Review function's error rate differed significantly from our error rate.

¹ Our review focused on the adequacy of the determination process for those cases that met the basic relief eligibility qualifications. It did not include an assessment of the accuracy of the "first-read" screening process or the case closing process.

² We did not assess the validity of the sampling technique used by and the sample size selected by the Innocent Spouse Centralized Review function.

³ The QRDb is used to capture the results of a quality review. It is used to collect a synopsis of the employee's actions, compare the employee's performance to IRS guidelines and procedures, and generate reports so the results of the review can be shared with the employee and identify positive or negative performance trends.

The Innocent Spouse Centralized Review Function Ensured Accurate Relief Determinations, but Improvements Could Increase Customer Service

- E. Discussed the variations with Innocent Spouse Program management to obtain agreement to facts and their potential cause. Specifically, we:
 - 1. Determined whether Innocent Spouse Program management conducted managerial reviews of the quality reviewers' work to ensure accuracy and consistency.
 - 2. Determined whether Innocent Spouse Program managers held periodic reviewer meetings to promote consistency of review results.
 - 3. Evaluated whether adequate training was provided to the quality reviewers to enable them to effectively verify the accuracy of the relief determinations.
 - 4. Evaluated whether staffing levels and rotations affected the adequacy of the reviews.
 - 5. Calculated from our statistical sample the number of taxpayers affected by the quality reviewers not evaluating the examiners' compliance with the appropriate tax laws and internal procedures when making a determination on a relief claim and projected the results to the overall population of cases that met basic relief eligibility qualifications.
 - F. Discussed with Innocent Spouse Program management any high error rate trends in our sampled accuracy quality attributes that were also identified by the Innocent Spouse Centralized Review function to determine what steps have been taken by management to correct them.
- II. Evaluated whether the Innocent Spouse Centralized Review function effectively monitors and measures the professionalism of the correspondence sent to taxpayers.
- A. Reviewed the sample cases for professionalism of the correspondence sent to taxpayers and compared the results of our review with the information in the QRDb for our specific cases and for the overall quality-reviewed case population.
 - B. Discussed any significant variations between our error rate and the Innocent Spouse Centralized Review function's error rate with Innocent Spouse Program management to obtain agreement to facts and their potential cause. Specifically, we:
 - 1. Evaluated whether adequate training was provided to the quality reviewers to enable them to effectively evaluate the professionalism of correspondence in the Innocent Spouse Program.
 - 2. Evaluated whether staffing levels and rotations affected the adequacy of reviews.
 - 3. Calculated from our statistical sample the number of taxpayers affected by the Innocent Spouse Centralized Review function not identifying unprofessional correspondence sent to taxpayers during the determination process and projected the results to the overall population of cases that met basic relief eligibility qualifications.

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- III. Evaluated whether the Innocent Spouse Centralized Review function effectively monitors and measures the timeliness of the relief determination process.
 - A. Reviewed the sample cases for timeliness and compared the results of our review to the information in the QRDb for our specific cases and for the overall quality-reviewed case population.
 - B. Discussed any significant variations between our error rate and the Innocent Spouse Centralized Review function's error rate with Innocent Spouse Program management to obtain agreement to facts and the cause of any unexplained periods of inactivity. Specifically, we:
 - 1. Evaluated whether adequate training was provided to the quality reviewers to enable them to effectively evaluate the timeliness of actions taken in the Innocent Spouse Program.
 - 2. Evaluated whether staffing levels and rotations affected the adequacy of the reviews.
 - 3. Calculated from our statistical sample the number of taxpayers affected by the Innocent Spouse Centralized Review function not identifying untimely actions during the determination process and projected the results to the overall population of cases that met basic relief eligibility qualifications.
 - C. Discussed with Innocent Spouse Program management any high error rate trends in our sampled timeliness quality attributes that were also identified by the Innocent Spouse Centralized Review function to determine what steps have been taken by management to correct them.

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Determinations, but Improvements Could Increase Customer Service**

Appendix II

Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Mary V. Baker, Director

Bryce Kisler, Audit Manager

Kristi Larson, Lead Auditor

David Hartman, Senior Auditor

Sharon Summers, Senior Auditor

Julia Tai, Senior Auditor

Jean Kao, Auditor

Lynn Ross, Auditor

**The Innocent Spouse Centralized Review Function Ensured Accurate Relief
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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Compliance, Wage and Investment Division SE:W:CP
Acting Director, Strategy and Finance SE:W:S
Director, Reporting Compliance, Wage and Investment Division SE:W:CP:RC
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Field Director, Compliance Services (Andover) SE:W:CP:CS:AN
Chief, Headquarters Discretionary Examination SE:W:CP:RC:EX(DISCR)
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:AR:M
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S

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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Taxpayer Burden – Actual; 61 taxpayers affected (see page 9).

Methodology Used to Measure the Reported Benefit:

Based on our sample of 128 closed cases the Innocent Spouse Centralized Review function had quality reviewed during the period November 1, 2003, through April 10, 2004:

- 8 taxpayers were affected by examiners not addressing all of the additional issues raised by the taxpayer.
- 3 taxpayers were affected by examiners not addressing all open IRS issues when considering the cases.
- 50 taxpayers were affected by examiners not sending all of the interim contact letters.

Total number of taxpayers in our sample burdened by inadequate customer service between November 1, 2003, and April 10, 2004: $8 + 3 + 50 = 61$ taxpayers.

Type and Value of Outcome Measure:

- Taxpayer Burden – Actual; 52 taxpayers affected (see page 11).

Methodology Used to Measure the Reported Benefit:

Based on our sample of 128 closed cases the Innocent Spouse Centralized Review function had quality reviewed during the period November 1, 2003, through April 10, 2004:

- 9 taxpayers were affected by examiners not always using clear and appropriate language in written correspondence.
- 43 taxpayers were affected by examiners not always using the correct format, grammar, spelling, punctuation, or letter type in correspondence with taxpayers.

Total number of taxpayers in our sample burdened by receiving unprofessional correspondence between November 1, 2003, and April 10, 2004: $9 + 43 = 52$.

Types of Taxpayer Relief

According to the Internal Revenue Service (IRS) publication, *Innocent Spouse Relief (and Separation of Liability and Equitable Relief)* (Publication 971), many married taxpayers choose to file a joint tax return because of certain benefits this filing status allows. However, both taxpayers are jointly and individually responsible for the tax and any interest or penalty due on the joint return, even if they later divorce. This is true even if a divorce decree states a former spouse will be responsible for any amounts due on previously filed joint returns. One spouse may be held responsible for all the tax due, even if the other spouse earned all the income. In some cases, a spouse (or former spouse) will be relieved of the tax, interest, and penalties on a joint tax return. The Internal Revenue Code Sections (I.R.C. §) 6015(b), (c), and (f) (2000) provide for three types of relief available to taxpayers who file a joint tax return.

1. Innocent Spouse Relief – I.R.C. § 6015(b).
2. Relief by Separation of Liability – I.R.C. § 6015(c).
3. Equitable Relief – I.R.C. § 6015(f).

Married taxpayers who did not file a joint tax return and live in community property states may qualify for relief under I.R.C. § 66(c) (2000).

1. Relief From Liability Arising From Community Property Law – I.R.C. § 66(c)).

Innocent Spouse Relief – I.R.C. § 6015(b): A taxpayer can be relieved of responsibility for paying tax, interest, and penalties if his or her spouse (or former spouse) improperly reported items or omitted items on their joint tax return. However, the taxpayer is jointly and individually responsible for any tax, interest, and penalties that do not qualify for relief. To qualify for innocent spouse relief, a taxpayer must establish the following:

- A joint tax return was filed that had an understatement of tax due to erroneous items of his or her spouse (or former spouse).
- At the time the taxpayer signed the joint tax return, he or she did not know, and had no reason to know, there was an understatement of tax.
- Taking into account all the facts and circumstances, it would be unfair to hold the taxpayer liable for the understatement of tax.

The taxpayer must request relief within 2 years from the date of the first collection activity involving the taxpayer after July 22, 1998. A request for innocent spouse relief will not be

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granted if the IRS proves the taxpayer and his or her spouse (or former spouse) transferred property to one another as part of a fraudulent scheme.¹

Relief by Separation of Liability – I.R.C. § 6015(c): Under this type of relief, the taxpayer allocates (separates) the understatement of tax² (plus interest and penalties) on his or her joint return between the taxpayer and his or her spouse (or former spouse). The understatement of tax allocated to the taxpayer is generally the amount for which he or she is responsible. This type of relief is available only for unpaid liabilities resulting from understatements of tax. Refunds are not allowed. To request relief by separation of liability, the taxpayer must have filed a joint return and met either of the following requirements at the time he or she filed the Request for Innocent Spouse Relief (Form 8857):

- The taxpayer is no longer married to, or is legally separated from, the spouse with whom he or she filed the joint return for which he or she is requesting relief. (Under this rule, a taxpayer is no longer married if he or she is widowed.)
- The taxpayer was not a member of the same household as the spouse with whom he or she filed the joint return at any time during the 12-month period ending on the date he or she filed the Form 8857.

If the requesting spouse meets all of the requirements of I.R.C. § 6015(c) and did not transfer property to avoid tax, he or she would be eligible for relief unless the IRS can establish the requesting spouse had actual knowledge of the item giving rise to the deficiency. The taxpayer must request relief within 2 years from the date of the first collection activity involving the taxpayer after July 22, 1998. The taxpayer must also establish the basis for allocating the erroneous items.

Equitable Relief – I.R.C. § 6015(f): If the taxpayer does not qualify for innocent spouse relief or relief by separation of liability, the taxpayer may still be relieved of responsibility for a portion or the entire amount of tax, interest, and penalties through equitable relief. Unlike innocent spouse relief or relief by separation of liability, the taxpayer can receive equitable relief from an understatement of tax or an underpayment of tax.³

The taxpayer must meet all of the following requirements in order to be eligible for consideration for equitable relief under I.R.C. § 6015(f):

- The taxpayer filed a joint return for the tax year.
- Relief is not already available under I.R.C. § 6015(b) or (c).

¹ A fraudulent scheme includes a scheme to defraud the IRS or another third party, such as a creditor, former spouse, or business partner.

² An understatement of tax is generally the difference between the total amount of tax that should have been shown on the tax return and the amount of tax that was actually shown on the tax return.

³ An underpayment of tax is an amount of tax the taxpayer properly reported on the tax return but did not pay.

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- The taxpayer must request relief within 2 years from the date of the first collection activity involving him or her after July 22, 1998.
- The income tax liability from which the taxpayer seeks relief must be attributable to an item of the spouse (or former spouse) with whom he or she filed the joint return. The item cannot be attributable to the taxpayer unless one of the following applies:
 - An item is attributable to the taxpayer solely due to community property law.
 - An item can be shown to be nominally owned by the taxpayer.
 - Funds intended for the payment of tax were misappropriated by the taxpayer's spouse (or former spouse) for his or her own benefit. The IRS may grant relief to the extent of the misappropriated funds taken by the taxpayer's spouse (or former spouse).
 - The taxpayer establishes he or she was the victim of abuse prior to the time the return was signed, and that, as a result of the prior abuse, he or she did not challenge the treatment of any items on the return for fear of retaliation by his or her spouse (or former spouse).
- The taxpayer and his or her spouse (or former spouse) did not transfer assets to one another as part of a fraudulent scheme.
- The taxpayer did not receive a transfer of disqualified assets⁴ from his or her spouse (or former spouse).
- The taxpayer did not file or fail to file his or her return with the intent to commit fraud.

If any of the above eligibility requirements are not satisfied, the IRS will deny the request for equitable relief. However, if the taxpayer meets all of the eligibility requirements, the IRS will consider the following qualifying factors in their decision to grant or deny relief under I.R.C. § 6015(f).

Under I.R.C. § 6015(f), the IRS will grant equitable relief for underpayment of tax if:

- It would be inequitable to hold the taxpayer liable for the unpaid tax liability as reported on the return; and
- The taxpayer meets all of the following conditions.
 - The taxpayer is divorced, separated, widowed, or lived apart from the other spouse for the 12 months prior to the date of filing the request.
 - The taxpayer had a reasonable belief the tax was paid or would be paid at the time he or she signed the return.

⁴ Assets that are transferred for the principal purpose of avoiding tax or avoiding the payment of tax.

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- Economic hardship would result if relief is not granted.

If the taxpayer does not qualify for equitable relief based on the qualifying factors for the underpayment of tax, the IRS may still grant relief under I.R.C. § 6015(f) if the taxpayer meets all of the eligibility requirements and if he or she:

- Did not meet the qualifying factors for the underpayment of tax, or
- Had understatement liabilities that did not meet I.R.C. § 6015(b) or (c) requirements.

When considering equitable relief under this criterion, the IRS considers the following.

- Marital status.
- Economic hardship.
- The spouse's legal obligation to pay.
- No knowledge or reason to know.
- Significant benefit.
- Compliance with income tax laws.
- Abuse.
- Mental or physical health.

Relief From Liability Arising From Community Property Law – I.R.C. § 66(c): The I.R.C. § 66(c), as amended by the IRS Restructuring and Reform Act of 1998,⁵ allows equitable relief for individuals filing separate returns in a community property state. This provision is similar to the provision under I.R.C. § 6015(f), which allows a taxpayer to request relief when it is determined to be inequitable to hold him or her liable for any understatements or underpayments of tax.

The amended provision under I.R.C. § 66(c) is available to taxpayers who do not:

- File joint returns and live in community property states.
- Qualify for separation of liability under I.R.C. § 66(a) (2000).⁶
- Benefit from an I.R.C. § 66(b) (2000)⁷ determination.

⁵ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

⁶ I.R.C. § 66(a) provides an exception to the general rule that community income is taxed one-half to each spouse living in a community property state. This is a special rule that generally permits spouses to allocate earned income to the spouse who earned the income if certain statutory requirements are met.

⁷ I.R.C. § 66(b) allows the Secretary of the Treasury to disregard community property laws by denying the benefits of income splitting between the spouses and assessing additional tax against the spouse earning the income.

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- Qualify for the traditional innocent spouse relief under I.R.C. § 66(c).

The taxpayer must meet all of the following requirements in order to be eligible for consideration for equitable relief from liability under I.R.C. § 66(c).

- The taxpayer did not file a joint return for the tax year.
- The taxpayer must request relief within 2 years from the date of the first collection activity involving him or her after July 22, 1998.
- The income tax liability from which the taxpayer seeks relief must be attributable to an item of the spouse (or former spouse) with whom he or she filed the joint return. The item cannot be attributable to the taxpayer unless one of the following applies:
 - An item is attributable to the taxpayer solely due to community property law.
 - An item can be shown to be nominally owned by the taxpayer.
 - Funds intended for the payment of tax were misappropriated by the taxpayer's spouse (or former spouse) for his or her own benefit. The IRS may grant relief to the extent of the misappropriated funds taken by the taxpayer's spouse (or former spouse).
 - The taxpayer establishes he or she was the victim of abuse prior to the time the return was signed, and that, as a result of the prior abuse, he or she did not challenge the treatment of any items on the return for fear of retaliation by his or her spouse (or former spouse).
- The taxpayer and his or her spouse (or former spouse) did not transfer assets to one another as part of a fraudulent scheme.
- The taxpayer did not receive a transfer of disqualified assets from his or her spouse (or former spouse).
- The taxpayer did not file or fail to file his or her return with the intent to commit fraud.

If any of the above eligibility requirements are not satisfied, the IRS will deny the request for relief. If the taxpayer meets all of the eligibility requirements, then the following qualifying factors would be considered in the decision to grant or deny relief under I.R.C. § 66(c).

- Marital status.
- Economic hardship.
- The other taxpayer's legal obligation to pay.
- No knowledge or reason to know.
- Significant benefit.
- Compliance with income tax laws.

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- Abuse.
- Mental or physical health.

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Appendix VI

Attribute Accuracy Rate Comparison

The following table compares the cumulative Innocent Spouse Quality Review accuracy rates for selected attributes¹ with the results of our sample of closed quality-reviewed cases for the period November 1, 2003, through April 10, 2004.

Table 1: Attribute Accuracy Rate Comparison

Attribute	Attribute Name – Definition	Cumulative Innocent Spouse Quality Review Accuracy Rate (Percentage)	TIGTA² Sample Accuracy Rate (Percentage)
Claim Determination Accuracy			
003	Taxpayer Issue(s) Identified/Addressed – The examiner properly identified and addressed other issues identified by the taxpayer.	64	47
020	Potentially Abusive Non-Electing Spouse (PANES) – The examiner properly determined whether the case involved a PANES.	99	99
302	Workpapers Support Conclusion – The examiner properly prepared workpapers to support the conclusion of the case.	92	92
308	Innocent Spouse/Determine Inequitability – The examiner developed the various factors in determining equitability.	99	100
403	Interpreted/Applied Tax Law Correctly – The examiner interpreted and applied the tax law correctly to resolve the taxpayer’s inquiry.	96	98
405	Written Tax Law Response – The examiner communicated all relevant and necessary tax law facts and included any relevant and necessary assumptions to answer the taxpayer’s question(s).	99	96
702	Identified/Provided Appeal Rights or Statutory Letters – The examiner identified, addressed, and/or provided appeal rights or statutory letters.	87	83

¹ An attribute represents a task an employee is required to perform to do his or her job correctly.

² Treasury Inspector General for Tax Administration.

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Attribute	Attribute Name – Definition	Cumulative Innocent Spouse Quality Review Accuracy Rate (Percentage)	TIGTA² Sample Accuracy Rate (Percentage)
708	Addressed Full Scope of Internal Revenue Service (IRS) Issues – The examiner addressed all applicable open IRS issues when considering the full scope of the call/case.	50	25
710	Employee Case Determination – The examiner completed the required case documentation per Internal Revenue Manual (IRM) ³ guidelines.	85	91
715	Correct/Complete Response/Resolution – The examiner provided the taxpayer with the correct response or resolution to his or her case or issue.	94	94
Professionalism Accuracy			
801	Clear/Professional Written Communication – The examiner used clear and appropriate language with no jargon to ensure written communication is complete.	98	93
805	Courteous (Paper) – The examiner provided courteous service to the taxpayer via his or her correspondence.	100	98
809	Correspondence Format – The examiner used the correct format, grammar, spelling, punctuation, and letter type in his or her correspondence with the taxpayer.	92	66
Timeliness Accuracy			
901	Interim Contacts – The examiner sent all the interim contact letters as required by the IRM.	46	48
904	Efficient Response/Resolution and IRM Time Periods Met – The examiner met all the IRM time periods and the case actions taken were done in the most efficient manner that did not result in any unnecessary delay to resolve the taxpayer's issue.	98	89

Source: Innocent Spouse Centralized Review function weekly quality review results reports for the period November 1, 2003, through April 10, 2004, and our case reviews.

³ The IRM contains policy, direction, and delegations of authority that are necessary to carry out IRS responsibilities to administer tax law and other legal provisions.

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Appendix VII

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
MAR 30 2005

MAR 30 2005

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Henry O. Lamar, Jr. *Henry O. Lamar, Jr.*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report: The Innocent Spouse Centralized Review
Function Ensured Accurate Relief Determinations, but
Improvements Could Increase Customer Service
(Audit #200440020)

We are pleased with your finding that Innocent Spouse caseworkers made accurate determinations in 100 percent of the closed cases you sampled, which had previously been reviewed for quality. We are also pleased with your finding that we timely issued preliminary and final determination letters to the taxpayers we serve. The Innocent Spouse Operation made significant quality and productivity improvements in Fiscal Years 2004 and 2005, through process enhancements and diligent monitoring of performance trends. Your report appropriately acknowledges many of the policies and procedures we developed, as well as the initiatives we have taken to enhance the quality of the Innocent Spouse determination process. Your recommendations, many of which have already been implemented, will help us to continue improving the overall quality of service provided to taxpayers by the Innocent Spouse Operation.

We agree with the outcome measures provided in Appendix IV. Attached is our response outlining corrective actions we have taken or will take to address your recommendations. If you have any questions, please call me at (404) 338-7060 or members of your staff may contact Jim Grimes, Director, Reporting Compliance, at (404) 338-7643.

Attachment

The Innocent Spouse Centralized Review Function Ensured Accurate Relief Determinations, but Improvements Could Increase Customer Service

Attachment

RECOMMENDATION 1

The Commissioner, W&I Division, should require the Innocent Spouse Operations Manager to periodically assess the effectiveness of corrective actions taken to address Innocent Spouse quality standards that warrant improvement.

CORRECTIVE ACTIONS

The Innocent Spouse Operations Manager has started and will continue to meet with the Department Managers and the Quality Review Manager on a weekly basis to analyze the Quality Review Defect Report to identify error trends and training needs. The quality review staff has been instructed to place emphasis on ensuring that all taxpayer issues are addressed. Review findings are being and will continue to be tracked and shared with the Front-line managers to discuss in their weekly employee meetings.

In an effort to improve the overall professionalism of correspondence to taxpayers, a comprehensive correspondence training module was delivered to all Innocent Spouse employees in January 2005. In addition, all employees received a nationally published English Grammar & Punctuation Quick Study Guide to use as a desk reference job aid.

IMPLEMENTATION DATE

Completed January 31, 2005

RESPONSIBLE OFFICIAL

Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.

RECOMMENDATION 2

The Commissioner, W&I Division, should revise quality reviewer guidelines to clarify the policy that quality reviewers should always charge an error when employees use unclear and inappropriate language in taxpayer correspondence, regardless of whether taxpayers may still understand the overall intent of the letter.

CORRECTIVE ACTIONS

The Innocent Spouse review guidelines were revised and issued on November 14, 2004. The guidelines now advise the reviewers to charge an error if the name, address, tax years, SSN, format, grammar, spelling, punctuation or letter type (font, letter case) were incorrect, regardless of whether taxpayers may understand the overall intent of the letter.

On November 4, 2004, the Innocent Spouse Operations Manager began a sample review of letters, prior to mailing, to ensure that the letters are clear and professional.

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All unclear and unprofessional letters are returned to the employee for correction. Results are documented on the Quality Review Database, as a local review.

IMPLEMENTATION DATE

Completed November 14, 2004

RESPONSIBLE OFFICIAL

Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.

RECOMMENDATION 3

The Commissioner, W&I Division, should assess the effectiveness of the current monthly case review process in ensuring quality reviewers' work is being consistently and accurately recorded, make enhancements as warranted and establish a follow-up review process to confirm the effectiveness of any enhancements made to ensure quality reviewers are recording all errors.

CORRECTIVE ACTIONS

The Innocent Spouse Policy Analyst for the W&I Division and the Innocent Spouse Operations Manager will jointly conduct a semiannual assessment of previously reviewed cases using a statistically valid sample. During this review, we will ensure that the Quality Reviewers are being consistent and accurately applying the quality attributes. The initial review will be completed by July 15, 2005.

A functional team has been formed whose role is to ensure consistency between managerial and quality review error coding. Unit results for both review types will be compared to ensure results are similar. Weekly meetings were held during March 2005. Monthly meetings will be held, starting in April 2005.

IMPLEMENTATION DATE

July 15, 2005

RESPONSIBLE OFFICIAL

Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.